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21 January 1958

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CENTRAL INTELLIGENCE BULLETIN



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21 JANUARY 1958

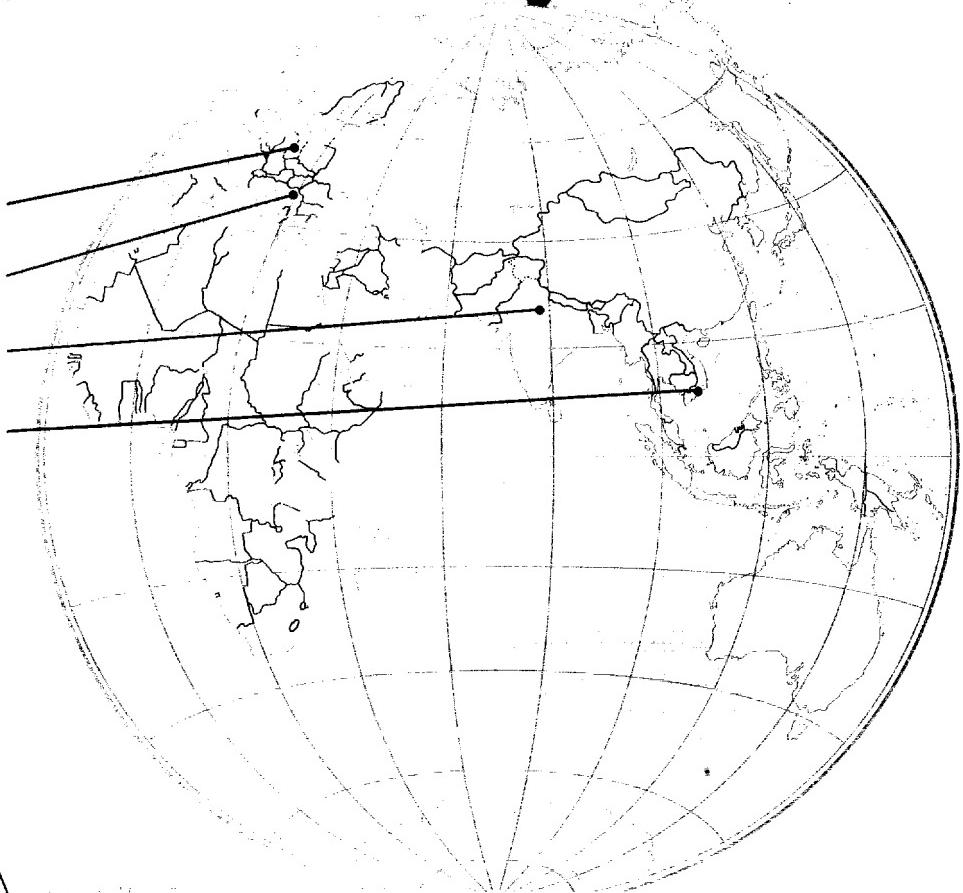
Russians say East Germans must clear US envoy's plane.

Tito supporting "summit meeting" of neutralist powers.

France negotiating \$48 million loan to India.

Soviet Union asks Britain to discuss Indochina situation.

Guatemala - Early returns suggest no candidate won absolute majority in presidential election.



OTHER ITEMS

Turkey sends negative reply to Bulganin letter.

Turkey will ask for US membership in Baghdad Pact.

Egyptian financial position worsening.

Soviet-Afghan oil agreement limited to exploration.

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DAILY BRIEF

I. THE COMMUNIST BLOC

Tito's attempts to promote a more influential role for neutralist states in reducing international tensions are making progress. He appears to have gained the support of Sukarno, Quwatli, and Nasir for a possible "summit meeting" of leading neutralist powers for a joint effort to effect a world heads-of-government meeting. Sukarno will probably try to line up additional support among Asian neutralists during his homeward trip. Bulganin's latest round of letters urged the inclusion of neutralist representatives in any East-West heads-of-government meeting. (CONFIDENTIAL)

Russian officials in Berlin insist that clearance of Ambassador Thompson's aircraft from Moscow to Berlin and return this week is the business of East Germany. They are willing to refer the flight request to the East Germans for action if the Americans agree. Ambassador Bruce in Bonn believes that protests will not affect the Soviet position, which is part of a continuing attempt to force recognition of East Germany. (CONFIDENTIAL)

II. ASIA-AFRICA

Egypt's foreign exchange position is steadily worsening. Egypt recently sold about \$14,500,000 of its gold reserves--some 7.5 percent of its total--and now has only a negligible amount of foreign currency. Further sales will have to be at the expense of the currency cover, thereby

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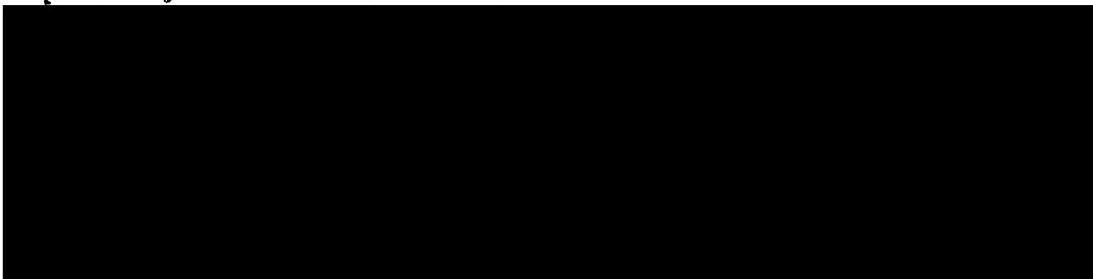
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further weakening the Egyptian pound. In the absence of successful conclusion of a financial settlement with the UK, Egypt's only important source of foreign exchange will be Suez Canal receipts. Economic problems alone are not likely to lead Nasir to make major political concessions in the near future. (SECRET NOFORN) (Page 1)

Turkey's response to Bulganin's letter of 22 November, in line with Turkey's previous attitude toward such approaches, is firm and forthright. While containing a sharp rejoinder to Moscow, it was also designed to win a favorable reaction from the Arab states. The latest Soviet letter, warning Turkey not to permit NATO missile bases, will probably draw a similar tough reaction. (SECRET)

The Turkish Government, supported by Iran and Pakistan, intends to "demand" formal American membership in the Baghdad Pact at the forthcoming meeting at Ankara, and sufficient economic and military support to counter the Soviet threat. (SECRET NOFORN)

The \$15,000,000 Afghan-Soviet oil exploration agreement signed on 7 January is expected to cover only surveys and experimental drilling. Equipment will be bought from the USSR for \$8,000,000. The Soviet, Czech, and Rumanian technicians to be employed over the four-year period will probably total nearly 500. (SECRET NOFORN)



The Soviet Union has proposed a meeting with Britain, the other cochairman under the 1954 Geneva Agreement on

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Indochina, on various financial and political aspects of the present situation. With settlements achieved in Cambodia and Laos, Moscow may now wish to spotlight the lack of progress toward the reunification of Vietnam and to undermine American efforts to strengthen South Vietnam. (CONFIDENTIAL) (Page 2)

III. THE WEST

France is negotiating a loan to India of approximately \$48,000,000, apparently to be used for ships, fertilizer plants, and irrigation machinery in connection with India's Second Five-Year Plan. This would be the first French loan to India. (CONFIDENTIAL)

* Unofficial returns indicate that none of the contenders in the 19 January Guatemalan presidential race is likely to win a majority. The election will thus probably be referred to congress, where control by moderates virtually assures the selection of the center candidate, Jose Luis Cruz Salazar. The evident determination of President Flores and the army to preserve order has thus far discouraged violence, but disorders are possible, particularly if Cruz Salazar is declared the winner without having won a plurality. (CONFIDENTIAL)

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I. THE COMMUNIST BLOC

No back-up material.

8-1 II. ASIA-AFRICA

Egyptian Financial Situation

The economic restrictions by the United States, the United Kingdom, and France have resulted in a marked deterioration of Egypt's usable foreign exchange reserves and an acute shortage of necessary spare parts and raw materials, which the Communists have not been able to supply.

In June 1956, the last month before the Western restrictions came into force, Egypt's working foreign exchange balances amounted to over \$150,000,000. By 15 January 1958, when a payment of more than \$6,000,000 was due Germany, these had declined to less than \$6,000,-000. Cairo has begun selling its gold reserves, estimated to be about \$188,000,000. The first sale, amounting to about \$14,500,000, or some 7.5 percent, was apparently made within the past week. Additional sales from the currency cover will further weaken the Egyptian pound.

The crisis might be postponed at least temporarily if Cairo and London reach agreement in negotiations scheduled to begin on 30 January. Subject to certain conditions, London apparently now is willing to release over \$50,000,000 of Egypt's blocked sterling balances. Otherwise, Egypt's only important source of foreign exchange will be Suez Canal receipts.

Disagreement between experienced advisers and radical members of the Nasir regime who are responsible for financial policies has become acute. However, the crisis is not now likely to lead to any major political changes, either in personnel or policy. (SECRET NOFORN)

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CONFIDENTIAL

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DR Moscow Bids to Reopen Talks on Indochina

The Soviet Union has proposed a meeting of the 1954 Geneva Agreement cochairmen--Britain and the USSR--to discuss certain aspects of the Indochina armistice. With political settlements envisaged under the 1954 agreement now a reality in Cambodia and Laos, Moscow may wish to spotlight the lack of progress toward reunification of Vietnam as well as attempt to undermine American efforts to strengthen the Diem government in South Vietnam. The USSR may, in part, be responding to the pressure of Viet Minh leader Ho Chi Minh, who recently paid an extended visit to Moscow.

The Soviet Union specifically requested discussion of the complicated problem of financial support for the truce mechanism in Indochina--the International Control Commission. It further suggested the discussion of political questions, such as South Vietnam's renunciation of the Geneva Agreement article which prohibits retaliation against "former combatants" by either side. Moscow may also exploit any such talks to attack the US military aid program to South Vietnam, or it might use the occasion to request the convening of a second Geneva conference on Indochina.

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The British Foreign Office is inclined to approve the holding of purely financial talks, but wishes to avoid consideration of political issues. (CONFIDENTIAL)

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III. THE WEST

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Poland Continues to Push Rapacki Plan

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Poland would be willing to accept "the most rigorous possible inspection procedures" under the Rapacki plan for a nuclear-free zone in central Europe, fully recognizing that many atomic weapons are quite small and easily concealed. The Poles have also explained that it does not necessarily entail West German dealings with East Germany.

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[redacted]
Poland advanced the plan to prevent West Germany from gaining nuclear arms. The Poles also probably hope to gain prestige by authoring a first step to broader disarmament schemes, and to avoid Soviet demands for basing nuclear weapons in Poland.

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